DOCKET ITEM: C-02	BOARD MEETING: March 11, 2014	EXEMPTION NUMBER: E-02-014
EXEMPTION APPLICANT(S): Trinity Health Corporation, CHE Trinity, Inc., and Foster G. McGaw Hospital-Loyola University Medical Center		
FACILITY NAME and LOCATION: Foster G. McGaw Hospital-Loyola University Medical Center, Maywood, Illinois		

STATE BOARD STAFF REPORT
CHANGE OF OWNERSHIP EXEMPTION

I. The Exemption Application

The applicants are proposing a change in control of an Illinois licensed health care facility. CHE Trinity Inc. and Trinity Health Corporation are proposing the change of ownership to allow consummation of a proposed merger whereby CHE Trinity, the sole corporate member of Trinity, and Catholic Health East ("CHE") will merge with and into Trinity, with Trinity resulting as the surviving corporation. The transaction is the second and final phase of a two phased transaction which was previously approved by the Board on May 15, 2013. The transaction will have no direct impact on facilities under their respective ownerships.

The licensee and operating entity and the owner of the site is Loyola University Medical Center. The Fair Market Value of Loyola University Health System which includes Foster G. McGaw Hospital – Loyola University Medical Center is $282,700,000. The anticipated date of project completion is July 1, 2014.

No letters of support or opposition were received by the State Board Staff and there was no request for a public hearing.

The Illinois Health Facilities Planning Act defines a change of ownership as

> ". . . a change in the person who has ownership or control of a health care facility's physical plant and capital assets. A change in ownership is indicated by the following transactions: sale, transfer, acquisition, lease, change of sponsorship or other means of transferring control."

The applicants are before the State Board because the transaction involves a change in control of a health care facility as defined by the Act. (20 ILCS 3960/3)

The applicants have met all of the requirements of 77 IAC 1130.520 Requirements for Exemptions Involving a Change of Ownership of a Health Care Facility.

II. The Facility

Foster G. McGaw-Loyola University Medical Center is a 569-bed facility located in Maywood (HSA 7), in the A-06 Hospital Planning Area which includes the Cook County Townships of River Forest, Oak Park, Cicero, Berwyn, Riverside, Proviso, Leyden and Norwood Park. The Hospital also offers cardiac surgery and cardiac catheterization services. Also located on the McGaw Hospital campus is Loyola University Medical Center Outpatient Dialysis Center, and the Loyola University Ambulatory Surgery Center.

III. The Applicants

Trinity Health, an Indiana not-for-profit corporation, is sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services, including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care, and rehabilitation services located in 10 states. Consistent with its mission, Trinity Health provides medical care to all patients regardless of their ability to pay. In addition, Trinity Health provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments, such as copays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates.

CHE Trinity Health is the second-largest Catholic health care delivery system in the nation, serving people and communities in 20 states from coast to coast with 82 hospitals, 88 continuing care facilities and home health and hospice programs that provide more than 2.3 million visits annually. It was formed in May 2013, when Trinity Health and Catholic Health East completed their consolidation to strengthen their shared mission, increase excellence in care and advance transformative efforts with their unified voice. With annual operating revenues of about $13.3 billion and assets over $19 billion, the new organization returns more than $800 million to its communities annually in the form of charity care and other community benefit programs. CHE Trinity Health employs nearly 86,000 people, including nearly 4,000 employed physicians. Committed to those who are poor and underserved in its communities, CHE Trinity Health is known for its focus on the country's aging population. As a single, unified ministry, the organization is the innovator of Senior Emergency Departments, the largest not-for-profit provider of home health care services — ranked by number of visits — in the nation, as well as the nation’s leading provider of PACE (Program of All Inclusive Care for the Elderly) based on the number of available programs.

Catholic Health East ("CHE") is a Pennsylvania nonprofit corporation. Catholic Health East is a catholic, multi-facility health system sponsored by seven religious congregations and Hope Ministries. Each sponsoring congregation appoints a representative to the Sponsors Council which maintains certain reserve powers, including the election of the CHE Board of Directors. CHE serves to carry out the health care ministries of the sponsoring congregations. The mission of CHE is to be a community of persons committed to being a transforming, healing presence within the communities it serves.

Definitions:

Sponsorship: The canonical/Catholic Church relationship between a civil corporation and a ministry, which enables that ministry to have Catholic identity. **Public Juridic Person:** An entity within the Roman Catholic Church that functions much as a corporation does within civil law. A public juridic person may acquire, retain, administer and alienate property in the name of the Roman Catholic Church. A public juridic person must be established by an appropriate ecclesiastical authority. **Alienation:** The transfer of stable patrimony (church property) from one party to another.

IV. <u>The Proposed Transaction</u>

Under the terms of the Transaction, CHE Trinity, Trinity Health and Catholic Health East will merge together and consolidate into Trinity and will establish a structure to address the rapidly changing health care environment that requires more focus on population health and the delivery of more coordinated and integrated care and health and wellness services. The Transaction will be the final step in the creation of a health system that serves people in 20 states from coast to coast with 86 hospitals, 13 PACE programs, 44 home care agencies operating in 160 counties, and 52 other continuing care communities.

In addition, there will be no purchase or sale of the assets and no funds will be exchanged pursuant to the Transaction. Trinity will preserve its charitable and Catholic identity and will continue to be subject to the Ethical and Religious Directives for Catholic Health Care Services. As this Transaction is merely the consolidation of the parent entities (i.e., CHE Trinity, Trinity and CHE) there will be no direct impact on their downstream entities. Notably, the downstream entities will continue, as of the effective date of the Transaction, to (i) maintain their own existing licenses, provider numbers and accreditations; (ii) furnish the services they are currently furnishing; and (iii) operate as organizations currently exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Moreover, none of the tax identification numbers will change for any of the downstream entities. Further, those entities currently licensed by the State of Illinois will remain the licensed entities with no change in facility name or location. Again, there will be no purchase or sale of the assets and no funds will be exchanged, in any regard, pursuant to the Transaction. In terms of the Transaction's specific connection to Illinois, Trinity is currently the sole corporate member of Loyola University Health System ("LUHS") and Mercy Health System of Chicago ("Mercy System").

V. Background

- **Previously on May 10, 2011** the State Board approved Trinity Health Corporation to become the sole member of Loyola University Health System. This change of control involved the following facilities: Foster G. McGaw Hospital (E-06-011), Gottlieb Memorial Hospital (E-05-011), Loyola University Medical Center Outpatient Dialysis Center (E-003-011), and Loyola University Medical Center ASTC (E-004-011).

- **On May 14, 2013** the State Board approved CHE Trinity to become the sole corporate member of Trinity Health Corporation (Trinity), and Catholic Health East (CHE). This change of control involved the following facilities: Foster G. McGaw Hospital (E-011-13), Gottlieb Memorial Hospital (E-012-13), Loyola University Medical Center Outpatient Dialysis Center (E-013-13), and Loyola University Medical Center ASTC (E-014-13).

VI. Other Information

Separate COE Applications have been simultaneously filed for each of the Trinity Illinois Licensed Facilities.

E-02-014 - Foster G. McGaw Hospital - Loyola University Medical Center ("LUMC"), a 569 bed general acute care hospital located in Maywood, Illinois;

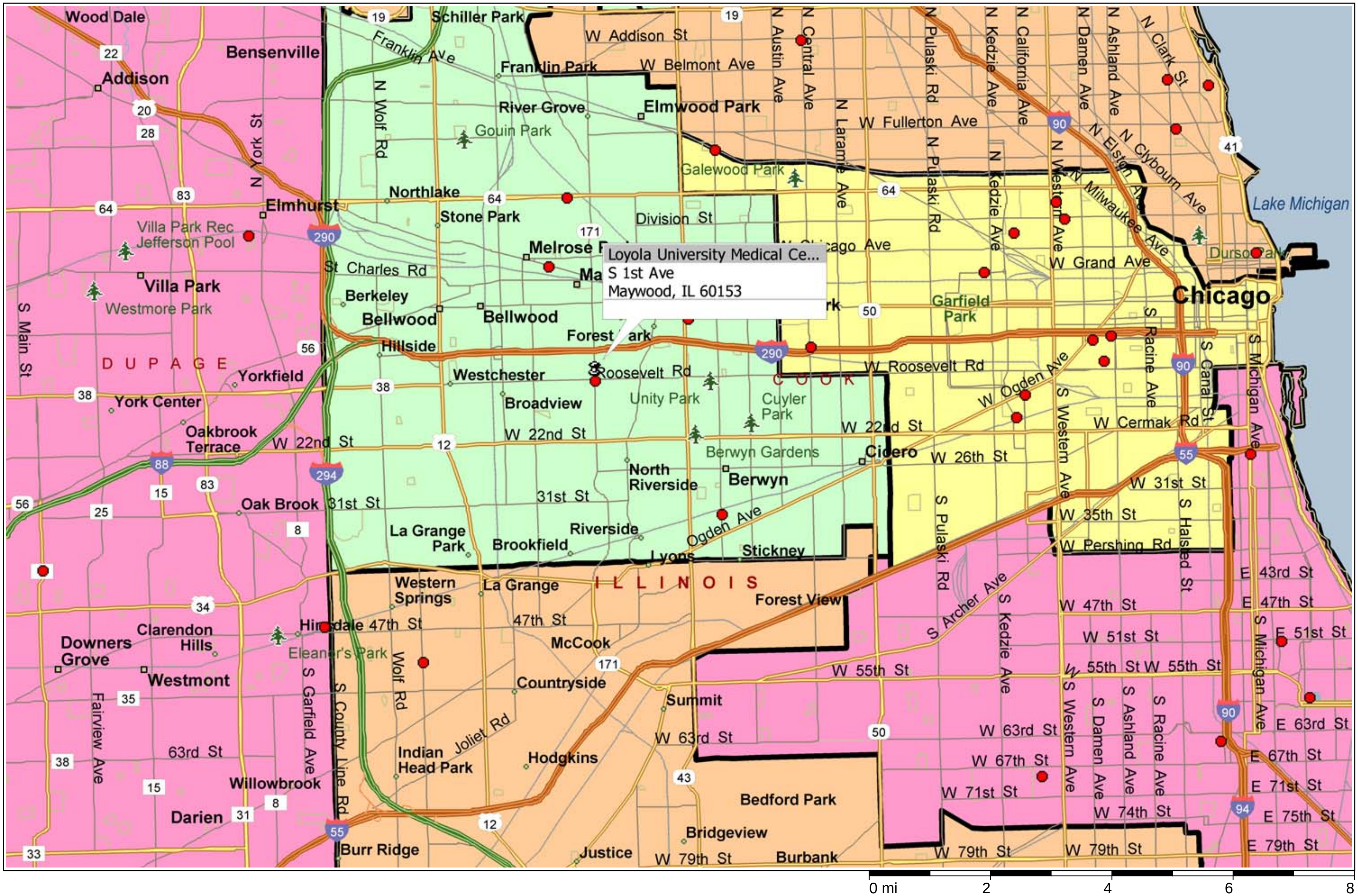
E-03-014 - Gottlieb Memorial Hospital ("Gottlieb"), a 264 bed general acute care hospital located in Melrose Park, Illinois;

E-04-014 - Loyola University Medical Center Outpatient Dialysis Center (the "LUMC Dialysis Center"), a provider based, 31 station end stage renal disease facility located in Maywood, Illinois; and

E-05-014 - Loyola University Medical Center Ambulatory Surgery Center (the "LUMC Surgery Center"), a provider based, 8 operating room ambulatory surgery center located in Maywood, Illinois.

E-06-014 -Mercy Hospital & Medical Center ("Mercy Hospital"), a 449 bed general acute care hospital located in Chicago, Illinois.

E-002-014 Loyola University Medical Center - Foster McGaw



Ownership, Management and General Information

ADMINISTRATOR NAME:	Larry Goldberg
ADMINSTRATOR PHONE	(708) 216-3215
OWNERSHIP:	Loyola University Health System
OPERATOR:	Loyola University Health System
MANAGEMENT:	Not for Profit Corporation (Not Church-R
CERTIFICATION:	(Not Answered)
FACILITY DESIGNATION:	General Hospital
ADDRESS	2160 South 1st Avenue **CITY:** Maywood **COUNTY:** Suburban Cook County

Patients by Race

White	61.2%
Black	24.1%
American Indian	0.0%
Asian	1.7%
Hawaiian/ Pacific	0.0%
Unknown	13.0%

Patients by Ethnicity

Hispanic or Latino:	15.9%
Not Hispanic or Latino:	83.5%
Unknown:	0.6%

IDPH Number:	5801
HPA	A-06
HSA	7

Facility Utilization Data by Category of Service

Clinical Service	Authorized CON Beds 12/31/2012	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy Rate %	Staffed Bed Occupancy Rate %
Medical/Surgical	298	283	253	20,370	72,530	4,778	3.8	211.8	71.1	74.8
0-14 Years				*250*	*769*					
15-44 Years				*4,541*	*14,905*					
45-64 Years				*7,854*	*28,473*					
65-74 Years				*4,034*	*15,077*					
75 Years +				*3,691*	*13,306*					
Pediatric	34	34	28	2,808	6,763	538	2.6	20.0	58.8	58.8
Intensive Care	125	119	97	6,637	28,511	175	4.3	78.6	62.9	66.0
Direct Admission				*4,579*	*21,262*					
Transfers				*2,058*	*7,249*					
Obstetric/Gynecology	30	16	16	2,109	4,237	194	2.1	12.1	40.5	75.9
Maternity				*2,107*	*4,235*					
Clean Gynecology				*2*	*2*					
Neonatal	50	50	35	294	9,467	2	32.2	25.9	51.9	51.9
Long Term Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Swing Beds				0	0		0.0	0.0		
Acute Mental Illness	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Rehabilitation	32	32	32	732	9,211	0	12.6	25.2	78.9	78.9
Long-Term Acute Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedcated Observation	*17*					*717*				
Facility Utilization	**569**			**30,892**	**130,719**	**6,404**	**4.4**	**375.7**	**66.0**	

(Includes ICU Direct Admissions Only)

Inpatients and Outpatients Served by Payor Source

	Medicare	*Medicaid*	*Other Public*	*Private Insurance*	*Private Pay*	*Charity Care*	*Totals*
Inpatients	**36.8%**	**20.2%**	**1.0%**	**35.7%**	**4.3%**	**2.0%**	
	11383	6241	315	11032	1314	607	**30,892**
Outpatients	**18.4%**	**16.0%**	**0.9%**	**56.9%**	**6.7%**	**1.0%**	
	39212	34184	1942	121441	14287	2200	**213,266**

Financial Year Reported: 6/30/2011 ***to*** 7/1/2012

Inpatient and Outpatient Net Revenue by Payor Source

	Medicare	*Medicaid*	*Other Public*	*Private Insurance*	*Private Pay*	*Totals*	*Charity Care Expense*
Inpatient Revenue ($)	**40.4%**	**10.2%**	**5.8%**	**39.3%**	**4.3%**	**100.0%**	
	157,702,000	39,642,000	22,639,000	153,200,000	16,799,000	389,982,000	12,851,346
Outpatient Revenue ($)	**27.7%**	**4.0%**	**3.9%**	**52.8%**	**11.6%**	**100.0%**	
	96,456,000	14,007,000	13,704,000	183,701,000	40,330,000	348,198,000	1,271,012

Total Charity Care Expense
14,122,358

Total Charity Care as % of Net Revenue
1.9%

Birthing Data

Number of Total Births:	954
Number of Live Births:	949
Birthing Rooms:	0
Labor Rooms:	7
Delivery Rooms:	0
Labor-Delivery-Recovery Rooms:	7
Labor-Delivery-Recovery-Postpartum Rooms:	0
C-Section Rooms:	2
CSections Performed:	368

Newborn Nursery Utilization

Level 1 Patient Days	1,571
Level 2 Patient Days	200
Level 2+ Patient Day	0
Total Nursery Patientdays	**1,771**

Laboratory Studies

Inpatient Studies	1,033,208
Outpatient Studies	1,111,199
Studies Performed Under Contract	101,076

Organ Transplantation

Kidney:	64
Heart:	10
Lung:	21
Heart/Lung:	0
Pancreas:	0
Liver:	14
Total:	**109**

Surgery and Operating Room Utilization

Surgical Specialty	Operating Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Cardiovascular	0	0	0	0	0	0	0	0	0	0.0	0.0
Dermatology	0	0	0	0	0	0	0	0	0	0.0	0.0
General	0	0	27	27	2652	1207	14257	4779	19036	5.4	4.0
Gastroenterology	0	0	0	0	0	0	0	0	0	0.0	0.0
Neurology	0	0	0	0	863	47	8898	420	9318	10.3	8.9
OB/Gynecology	0	0	0	0	602	313	2948	1269	4217	4.9	4.1
Oral/Maxillofacial	0	0	0	0	81	138	449	629	1078	5.5	4.6
Ophthalmology	0	0	0	0	20	2	94	6	100	4.7	3.0
Orthopedic	0	0	0	0	1631	210	8212	839	9051	5.0	4.0
Otolaryngology	0	0	0	0	443	1088	2837	3648	6485	6.4	3.4
Plastic Surgery	0	0	0	0	218	206	1231	871	2102	5.6	4.2
Podiatry	0	0	0	0	0	0	0	0	0	0.0	0.0
Thoracic	0	0	0	0	1069	92	7529	299	7828	7.0	3.3
Urology	0	0	0	0	736	492	3729	1899	5628	5.1	3.9
Totals	**0**	**0**	**27**	**27**	**8315**	**3795**	**50184**	**14659**	**64843**	**6.0**	**3.9**

SURGICAL RECOVERY STATIONS Stage 1 Recovery Stations 40 Stage 2 Recovery Stations 0

Dedicated and Non-Dedicated Procedure Room Utilzation

Procedure Type	Procedure Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Gastrointestinal	0	0	6	6	3948	5491	5330	5451	10781	1.4	1.0
Laser Eye Procedures	0	0	0	0	0	0	0	0	0	0.0	0.0
Pain Management	0	4	0	4	0	588	0	588	588	0.0	1.0
Cystoscopy	0	0	0	0	0	0	0	0	0	0.0	0.0
Multipurpose Non-Dedicated Rooms											
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0

Emergency/Trauma Care

Certified Trauma Center		Yes
Level of Trauma Service	**Level 1**	**Level 2**
	Adult	Not Answered
Operating Rooms Dedicated for Trauma Care		1
Number of Trauma Visits:		2,211
Patients Admitted from Trauma		2,020
Emergency Service Type:		Comprehensive
Number of Emergency Room Stations		31
Persons Treated by Emergency Services:		46,584
Patients Admitted from Emergency:		14,042
Total ED Visits (Emergency+Trauma):		**48,795**

Outpatient Service Data

Total Outpatient Visits	**1,290,428**
Outpatient Visits at the Hospital/ Campus:	740,416
Outpatient Visits Offsite/off campus	550,012

Cardiac Catheterization Utilization

Total Cardiac Cath Procedures:	**5,325**
Diagnostic Catheterizations (0-14)	0
Diagnostic Catheterizations (15+)	2,242
Interventional Catheterizations (0-14):	0
Interventional Catheterization (15+)	877
EP Catheterizations (15+)	2,206

Cardiac Surgery Data

Total Cardiac Surgery Cases:	**1,076**
Pediatric (0 - 14 Years):	9
Adult (15 Years and Older):	1,067
Coronary Artery Bypass Grafts (CABGs) performed of total Cardiac Cases :	306

Cardiac Catheterization Labs

Total Cath Labs (Dedicated+Nondedicated labs):	**9**
Cath Labs used for Angiography procedures	0
Dedicated Diagnostic Catheterization Lab	0
Dedicated Interventional Catheterization Labs	0
Dedicated EP Catheterization Labs	4

Diagnostic/Interventional Equipment

Diagnostic/Interventional Equipment	Owned	Contract	Examinations: Inpatient	Outpt	Contract
General Radiography/Fluoroscopy	26	0	63,338	78,860	0
Nuclear Medicine	16	0	2,094	7,417	0
Mammography	6	0	14	19,236	0
Ultrasound	14	0	4,457	18,191	0
Angiography	4	0			
Diagnostic Angiography			0	0	0
Interventional Angiography			1,782	1,971	0
Positron Emission Tomography (PET)	1	1	21	1,026	0
Computerized Axial Tomography (CAT)	7	0	15,010	21,097	0
Magnetic Resonance Imaging	8	0	4,463	13,682	0

Radiation Equipment

Radiation Equipment	Owned	Contract	Therapies/ Treatments
Lithotripsy	1	0	10
Linear Accelerator	3	0	11,779
Image Guided Rad Therapy	0	0	2,458
Intensity Modulated Rad Thrp	0	0	4,789
High Dose Brachytherapy	1	0	154
Proton Beam Therapy	1	0	0
Gamma Knife	1	0	1,406
Cyber knife	0	0	0

Source: 2012 Annual Hospital Questionnaire, Illinois Department of Public Health, Health Systems Development.

FitchRatings

FITCH RATES CHE TRINITY'S (MI) 2013 REVS 'AA/F1+'; OUTLOOK STABLE

Fitch Ratings-New York-03 October 2013: Fitch Ratings has assigned 'AA' long-term ratings and 'F1+' short-term ratings to the following revenue bonds to be issued on behalf of CHE-Trinity Health Credit Group.

--$45.1 million Idaho Health Facilities Authority Hospital Revenue Bonds, Series 2013ID;
--$69.9 million Michigan Finance Authority Hospital Revenue Bonds, Series 2013MI;
--$103.1 million Montgomery County, Maryland Revenue Bonds, Series 2013MD;
--$86.4 million County of Franklin, Ohio Revenue Bonds, Series 2013OH;
--$75 million Michigan Finance Authority Hospital Revenue Bonds, Series 2013MI-3(a)

(a)The series 2013MI-3 are not supported by self-liquidity and only carry the 'AA' long-term rating.

Additionally, Fitch upgrades to 'AA' from 'A+' the long-term rating on its rated outstanding revenue bonds issued on behalf of Catholic Health East; affirms the 'AA' long-term rating on its rated revenue bonds on behalf of Trinity Health Credit Group and affirms the 'F1+' short-term rating on approximately $767.1 billion of bonds and commercial paper program issued by Trinity Health Credit Group supported by CHE Trinity's internal liquidity.

CHE Trinity plans to remarket two series of variable rate demand bonds ($63.6 million Saint Mary Hospital Authority Health System Revenue Bonds Catholic Health East Issue, Series 2012B and $25.2 million North Carolina Medical Care Commission Health System Revenue Bonds Catholic Health East Issue, Series 2008), which will continue to carry the 'AA/F1+' rating.

The Rating Outlook is Stable.

The series 2013 bonds are expected to be structured as variable-rate debt and will be priced the week of Oct. 28, 2013 through negotiated sale. Proceeds will be used for refunding of certain maturities of currently outstanding Catholic Health East (CHE) debt, reimbursement of $285 million for prior capital expenditures, $280 million towards redemption of commercial paper, remarketing of certain CHE outstanding bonds, and pay costs of issuance.

SECURITY

On Oct. 3, 2013, CHE Trinity, Trinity Health and CHE formed the CHE Trinity Health Credit Group pursuant to a Master Trust Indenture, dated as of Oct. 3, 2013. The series 2013 bonds are general unsecured obligations of the CHE Trinity Credit Group. The CHE Trinity Health master indenture provides for security interests in 'pledged property' of members at the CHE Trinity obligated group and certain designated affiliates with pledged property including: all receipts, revenues, income and other moneys received, and including rights to receive accounts and health care insurance receivables.

KEY RATING DRIVERS

GEOGRAPHICALLY DIVERSE SYSTEM: CHE Trinity is the second largest nonprofit healthcare provider in the US with approximately $13.3 billion in total revenue operating 82 hospitals in 21 states with more than 87,000 employees. Fitch views the system's size, scope of operations, and geographic dispersion as a primary credit strength that helps protect the organization from adverse economic events that could severely affect any of its core markets.

STRONG MANAGEMENT PRACTICES: Fitch views CHE Trinity's management team as a

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primary credit strength despite the interim status of some senior managers. The team's strong management practices are evident through continued improved revenue collection efforts, consolidation of redundant services, and a willingness to close or divest in poor performing markets.

GOOD PROFITABILITY: As of June 30, 2013 (year-end consolidated; unaudited), CHE Trinity earned nearly $413 million from operations, which translated into 3.1% operating margin and 9.4% operating EBITDA margin. Fitch believes the system's profitability is sufficient to generate adequate debt service coverage metrics for the 'AA' rating level.

MODERATE DEBT BURDEN: Maximum annual debt service (MADS) of approximately $294.5 million represented 2.2% of revenues as of June 30, 2013, which compared favorably against Fitch's 'AA' category median of 2.6%. CHE Trinity's debt burden is expected to remain relatively consistent going forward despite the system's large capital plan.

ADEQUATE LIQUIDITY: CHE Trinity had sound balance sheet indicators in fiscal 2013 as the system had $6.7 billion in unrestricted cash and investments, which equated to 201 days cash on hand, 22.8x cushion ratio, and 137% cash to debt. Fitch views the system's absolute liquidity growth favorably, increasing to a pro forma $7 billion (after series 2013 debt issuance) from $6.1 billion in 2012.

RATING SENSITIVITIES

LARGE CAPITAL PLANS: Over the next three years management has budgeted to spend approximately $3.9 billion in capital investments including major facility renovations, information technology, and routine capital spending. Fitch would expect profitability to be sustained to support the organization's spending plans.

CREDIT PROFILE

On May 1, 2013 CHE Trinity became the sole corporate member of Catholic Health East (rev bonds rated 'A+') and Trinity Health Corporation (rev bonds rated 'AA'), which created one of the largest nonprofit healthcare delivery systems in the US. Today, the system has operating revenues of $13.3 billion, operating 82 hospitals, 89 continuing care facilities with more than 87,000 employees. Additionally, CHE Trinity is now the nation's largest PACE and home health provider.

'AA' RATING ASSIGNMENT

The credit factors supporting CHE Trinity's 'AA' rating include the benefits that accrue from the size and scale of the system's operations, solid overall financial profile, and effective management practices. CHE Trinity's geographic diversity of its operations, providing care in 21 states, allows the organization to realize economies of scale through on-going consolidation of certain shared administrative and financial services, as well as the ability to export clinical and operational 'best practices' across the system. Fitch believes that the system can generate further clinical and operational efficiencies throughout the system over the near to medium term, which should offset the effects of tighter reimbursement and slowing volume growth.

Using consolidated financial statements for fiscal 2012 and 2013 (unaudited) Fitch believes the system has a solid overall financial profile that's characterized by sizable liquidity, sound operations, and a moderate debt burden. CHE Trinity's operating and operating EBITDA margins of 3.1% and 9.4% are consistent with its rated peer group and produce solid pro forma debt service coverage metrics of 4.2x in 2013. As provided by the underwriter, consolidated pro forma maximum annual debt service (MADS) is estimated at $294.5 million which equates to 2.2% of 2013 total revenue which is in line as compared to the 'AA' category median of 2.6%. Going forward, management is budgeting for consistent operational profitability, which Fitch believes will continue to support the organization's capital investment program without significantly deteriorating the system's financial profile.

'F1+' SHORT-TERM LIQUIDITY RATING

The 'F1+' rating reflects the adequacy of CHE Trinity's eligible cash, investments, and dedicated lines of credit to fund any unremarketed puts on its variable rate demand bonds and commercial paper (CP) program. At Aug. 31, 2013, CHE Trinity had a total of approximately $2.5 billion of highly liquid, unrestricted cash and fixed income securities available. CHE Trinity secured a $731 million dedicated credit facility from a consortium of 12 banks for additional liquidity. CHE Trinity has total funding sources available to meet the maximum one-week tender exposure well in excess of Fitch's 'F1+' threshold of 1.25x. Fitch received a written internal procedures letter from the organization, which outlines internal policies to meet any funding requirements. Fitch receives monthly investment reports, which are used to monitor CHE Trinity's cash and investment position relative to its liquidity coverage.

OUTSTANDING DEBT PROFILE

CHE Trinity's debt profile is 62% fixed rate and 38% variable rate. The system has several outstanding swaps with a total mark-to-market valuation of negative $112 million as of June 30, 2013. Overall Fitch views the organization's debt profile favorably with a majority of fixed-rate debt.

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Additional information is available at 'www.fitchratings.com'

Applicable Criteria and Related Research:
--'Nonprofit Hospitals and Health Systems Rating Criteria' (May 20, 2013).

Applicable Criteria and Related Research:
Nonprofit Hospitals and Health Systems Rating Criteria – Effective Aug. 12, 2011 to July 23, 2012
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648836

ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

STANDARD
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RATINGS SERVICES

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Trinity Health, Michigan
Catholic Health East, Pennsylvania
CHE Trinity Health Credit Group, Michigan; CP; Hospital; Joint Criteria; System

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Trinity Health, Michigan
Catholic Health East, Pennsylvania
CHE Trinity Health Credit Group, Michigan; CP; Hospital; Joint Criteria; System

Credit Profile		
US$103.14 mil rev bnds (CHE Trinity Hlth Credit Group) ser 2013MD dtd 10/28/2013 due 12/01/2048		
Long Term Rating	AA-/A-1+/Stable	New
US$86.35 mil rev bnds (CHE Trinity Hlth Credit Group) ser 2013OH dtd 10/28/2013 due 12/01/2048		
Long Term Rating	AA-/A-1+/Stable	New
US$45.12 mil hosp rev bnds (CHE Trinity Hlth Credit Group) ser 2013ID dtd 10/28/2013 due 12/01/2048		
Long Term Rating	AA-/A-1+/Stable	New
Franklin Cnty, Ohio		
Trinity Health , Michigan		
Series 2005A, 2010C		
Long Term Rating	AA-/Stable	Downgraded
Tampa, Florida		
Catholic Health East, Pennsylvania		
Tampa (Catholic Health East) Series 1998A-2		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services lowered its long-term rating and underlying rating (SPUR) to 'AA-' from 'AA' and to 'AA-/A-1+' from 'AA/A-1+' on various series of bonds issued for Trinity Health (Trinity), Mich. Standard & Poor's also raised its long-term rating and SPUR to 'AA-' from 'A+' on various series of bonds issued for Catholic Health East (CHE), Pa.

In addition, Standard & Poor's assigned its dual 'AA-/A-1+' rating to the Idaho Health Facilities Authority's $45.12 million series 2013ID bonds issued in windows mode, to the Michigan Finance Authority's $69.91 million series 2013MI-1 bonds issued in quarterly term mode, to Montgomery County, Md.'s $103.14 million series 2013MD issued in quarterly term mode, and to Franklin County, Ohio's $86.35 million series 2013OH bonds issued in windows mode. All bonds were issued for the CHE Trinity Health Credit Group (CHE Trinity). The outlook on all ratings is stable.

The 'A-1+' short-term component of the dual ratings reflects our view of the credit strengths inherent in the 'AA-' long-term rating, as well as our view that CHE Trinity's assets provide sufficient self-liquidity support for its variable-rate debt. CHE Trinity has clear and detailed procedures to meet any liquidity demands on a timely basis. Standard & Poor's monitors the liquidity and sufficiency of CHE Trinity's fixed-income assets on a monthly basis.

In our view, Trinity and CHE's merger as CHE Trinity creates opportunities for operational efficiencies and growth based on size, scale, and ability to respond to the inherent challenges in the health care sector. We believe that CHE Trinity's enterprise profile is enhanced but that key financial profile metrics, most specifically key balance sheet metrics, are diluted and now more consistent with our 'AA-' medians. Our longer-term view is that balance sheet metrics will improve as CHE Trinity continues to realize the benefits of the merger.

Since its May 1 closing, CHE Trinity has moved quickly to consolidate all debt under a new master trust indenture (MTI), whereby Trinity Health's MTI will be amended to expand the obligated group to include CHE Trinity, CHE, and Trinity Health under a consolidated obligated group structure.

The rating actions reflect our view of the completed CHE Trinity's new MTI and that the new obligated group will issue debt as a single organization for the first time, with the result that all "legacy" Trinity Health and CHE debt will carry the same rating as that on CHE Trinity.

CHE maintained a fiscal year ending Dec. 31 and Trinity Health maintained a fiscal year ending June 30. CHE Trinity has adopted a June 30 fiscal year end, and the financial information in this report reflects combined unaudited pro forma financial results for the 12 months ended June 30, 2013 based on Trinity Health's audited information and CHE's unaudited six-month information through that date.

As part of the current plan of finance and the 2013 new debt issuances, CHE Trinity, is also replacing (remarketing) its letter-of-credit (LOC) facilities with self-liquidity (on or about Oct. 30) for the former CHE North Carolina Medical Care Commission's $25.275 million series 2008 bonds and former CHE Saint Mary Hospital Authority's $63.615 million series 2012B bonds, both to be remarketed in weekly mode. The dual rating on the series 2012B will be revised to 'AA-/A-1+' from 'AAA/A-1+' as part of this transaction at the time of the remarketing. Because of the substitution of the LOC with the Bank of New York Mellon for self-liquidity, the series no longer qualifies for joint criteria and the 'AA-/A-1+' dual rating will be applied based on CHE Trinity credit and liquidity support. In addition, at the time of the remarketing Standard & Poor's will assign its 'AA-/A-1+' dual rating to North Carolina's series 2008, which has historically carried a rating based only on an LOC provider.

The 'AA-' rating reflects our view of CHE Trinity's:

- National presence, with a distributed geographic presence in 21 states on the East Coast, in the South, and in the Midwest through 82 inpatient facilities;
- Strong balance sheet, highlighted by excellent operational liquidity equal to approximately 200 days' cash on hand as of June 30, 2013;
- Consistent financial performance, which generates good 5.2x coverage of pro forma maximum annual debt service (MADS) using June 30, 2013 data; and
- Strong management team that has demonstrated consistent operating income levels during periods of economic stress, combined with a very measured approach to capital expenditures.

Partly offsetting the above strengths, in our view, are CHE Trinity's:

- Need to successfully manage the ongoing challenges and opportunities inherent in a merger of this magnitude, although initial results from its Integration Management Office (IMO) are promising;
- Projected capital expenditures (including routine, technology, and expansion) of about $1.3 billion per year for the

next several years, which could limit liquidity growth; and

- Improved but still high unfunded pension expenses, which limit financial flexibility; and
- Key operational and balance sheet metrics that are now more consistent with our 'AA-' rating medians.

Bond proceeds of approximately $733 million -- which includes the proceeds of the rated series 2013 mentioned above, remarketings of the series 2008 North Carolina bonds and series 2012B Pennsylvania bonds, and approximately $325 million in proceeds from unrated direct placement bonds -- will largely be used to repay approximately $278 million of commercial paper (CP) and provide about $283 million in reimbursement for prior capital expenditures, with the remainder allocated to remarketing/refunding selected series of bonds as well to paying cost of issuance. We anticipate that the $283 million in reimbursement for prior capital expenditures will be immediately placed back onto the balance sheet.

Outlook

The stable outlook reflects our opinion that CHE Trinity will continue to consistently generate its projected operating income levels, which in turn would continue to generate good MADS coverage for the two-year outlook period. In addition, we anticipate that CHE Trinity will maintain a solid balance sheet with around 200 days' cash on hand and leverage of less than 40%.

We would favorably view the successful resolution to the final sale of CHE's discontinued operations, improved operating margins through its integration efforts, and gradually improving credit metrics, and do not rule out revising the outlook to positive during the two-year outlook period.

Conversely, we could revise the outlook to negative if, in the two-year outlook period, CHE Trinity Health borrows significantly more than anticipated or if its balance sheet or operating margins weaken.

Enterprise Profile

Market position/Organizational overview

CHE Trinity has a presence in 21 states, with operating revenue of more than $13 billion, 82 hospitals, more than 87,000 full-time equivalent (FTE) employees, and approximately 4,100 employed physicians and residents, making it one of the largest not-for-profit health care and home health organizations in the country. CHE Trinity consists of the former Trinity Health, which is largely located in the Midwest (particularly Michigan and Ohio), and CHE, which has great market diversification with hospitals in states up and down the Eastern Seaboard. Trinity Health and CHE hospitals have typically not been the dominant providers in their respective markets and face strong competition from other hospitals or health systems. In addition, they also tend to be in mature markets with slow population growth.

Combined patient service volume indicates that CHE Trinity will see more than 500,000 discharges and approximately 13 million outpatient visits in 2013, both metrics increasing from 2012 but largely because of acquisitions during the prior year. We anticipate that inpatient volume will level off and gradually decline as the shift to the outpatient setting continues because the CHE Trinity markets generally have little population growth or aging of the population (which increases utilization). We do, however, anticipate that the combined organization will see an increase in emergency room visits, home health visits, and skilled nursing days as a result of this shift, and CHE Trinity has put considerable efforts into expanding these service line segments.

Management

Significant movement has taken place in senior management, with the naming of new leadership positions under CHE Trinity. Former Trinity Health CEO Joe Swedish left the organization in early 2013. CHE Trinity appointed Judith Persichilli, former president and CEO of CHE, as the interim president and CEO of CHE Trinity, and Larry Warren, former interim CEO of Trinity Health, as the interim chief operating officer (COO) of CHE Trinity. Persichilli reports that the organization is progressing in a search for a permanent CEO and anticipates interviewing final candidates in early October 2013, with the search targeted for completion by calendar year end.

We believe that the combined system will remain financially disciplined and focused, but that challenges do lie ahead in successfully integrating two very large and diverse operations, especially in light of continued reform and uncertainty in the sector. We also believe that the combination of Trinity Health and CHE has enhanced the leadership team's ability to affect health care on a national level through its advocacy efforts.

Financial Profile

Operations

CHE Trinity's financial performance improved in fiscal 2013, producing an operating income of $415 million, which is equal to a 3.1% operating margin. This is an improvement over the $372 million operating income level, or 3.0% operating margin, in fiscal 2012. Operating income excludes losses associated with discontinued operations (St. Michael's and Mercy Health), which totaled $163 million in fiscal 2013. CHE Trinity is divesting Saint Michael's Medical Center in Newark, N.J., to Prime Healthcare Services and Mercy Health System in Portland, Maine, to Eastern Maine Health System, and we view these actions as credit positive. CHE Trinity still owns Saint Michael's and Mercy Health System Maine, and accounts for the two facilities' operations as discontinued operations.

Operational improvements identified through synergies derived from the consolidation of CHE and Trinity Health have been identified at $300 million in annual cost savings, which management aims to achieve in full by fiscal 2016. Savings are in the broad areas of improvements in the revenue cycle, supply chain management, clinical initiatives, and information systems. CHE Trinity has formed what it is calling the IMO, which has formed and which is overseeing 15 integration teams that are managing specific projects and initiatives. Initial work is underway, with estimates of savings at approximately $80 million in fiscal 2014, ramping up to the full $300 million by fiscal year-end 2016.

CHE Trinity produced excess income of $762 million, or a 5.6% excess margin, in fiscal 2013 (per our calculations). Excess income excludes discontinued operations but includes realized equity earnings in unconsolidated organizations. Excess income of $347 million in fiscal 2013 excludes the $163 million of losses from discontinued operations (as previously mentioned and associated primarily with Saint Michael's as a write-down asset impairment) but does include non-operating income and $61.4 million of equity earnings in unconsolidated subsidiaries (primarily BayCare Health System, a multihospital system located in and around Tampa). Because these unconsolidated organizations do not return cash to CHE Trinity, their earnings do not contribute to debt service coverage or liquidity growth and we do

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eliminate them from our coverage calculations. CHE Trinity produced good MADS coverage of about 5.2x on a pro forma basis in fiscal 2013 with this adjustment.

Balance sheet

Unrestricted liquidity increased at CHE Trinity to a little more than $6.7 billion, or 201 days' cash on hand, in fiscal 2013. With the 2013 debt issuance and the anticipated $285 million returning to CHE Trinity's balance sheet, unrestricted liquidity will increase to a little less than $7 billion on a pro forma basis. Cash on hand increases just slightly to 209 days, while CHE Trinity's overall leverage (debt to capitalization) increases slightly to 36% and cash to debt decreases to a little less than 135%, all on a pro forma basis using CHE Trinity's June 30, 2013 figures.

CHE Trinity anticipates maintaining balance sheet strength during the next several years, with cash on hand in the range of 200 to 210 days through fiscal 2016 and with leverage gradually declining to a little more than 30% and cash to debt measuring approximately 150% as of fiscal 2016. Similarly, the organization anticipates maintaining its historical target of approximately a 3% operating margin.

The former Trinity Health organization has a balanced asset allocation for its operating funds: approximately 50% fixed income and cash, 18% hedge funds and real assets, and 32% equities. The former CHE organization's investment allocation is similar, with 45% of assets invested in cash, cash equivalents, and fixed income, another 17% in hedge funds, and 38% in equities. CHE Trinity management reports an interest in moving toward more a more conservative allocation, wanting to preserve self-liquidity opportunities and modeling itself after 'AA' median ratios. Asset allocation decisions are still being studied and evaluated.

Trinity Health's projected benefit obligation (for fiscal 2013) for its defined benefit pension plan has an unfunded status of approximately $662 million (an approximately 87% funding level). CHE's projected benefit obligation (for fiscal 2013) for its defined benefit pension plan has an unfunded status of approximately $219 million (an approximately 82% funding level). This combined $881 million unfunded status is significant, and management anticipates further contributions over time, but the level has come down significantly from fiscal 2012's $1.4 billion. Although the unfunded status and funding level are credit risks, the liabilities have improved and CHE Trinity retains some financial flexibility because substantially all of the defined benefit plans have church plan status.

Capital expenditures

Management has capital plans totaling about $1.3 billion per year for the next several years, and CHE Trinity has historically funded or reimbursed itself for part of its strategic capital expenditures with debt issuances. In July 2013, CHE Trinity signed a non-binding letter of intent to acquire St. Joseph's Hospital and Health Center. The St. Joseph organization has about $600 million in annual revenue and a sizable market share in Syracuse.

Legal security

CHE Trinity Health is consolidating the obligations of the Trinity obligated group and the CHE obligated group under an amended and restated Trinity MTI. CHE Trinity Health is working with the bond trustees to accept replacement obligations issued by Trinity, as obligated group agent for the new CHE Trinity Health credit group, in exchange for obligations securing such bonds previously issued under the CHE MTI. These replacement obligations will be issued by Trinity, as obligated group agent, under and pursuant to the amended and restated Trinity master trust indenture. The CHE Trinity Health MTI provides for security interests in the "pledged property" of each member of the CHE

Trinity Health Obligated Group and certain designated affiliates, with pledge property being described as all receipts, revenue, income and other money received and including rights to receive accounts and health care insurance receivables.

St. Peter's Health Partners (St. Peter's) in New York is a subsidiary of CHE that we rate separately because New York regulations prohibit St. Peter's from joining an out-of-state obligated group. Saint Michael's Medical Center's (Saint Michael's) debt was also issued outside the former CHE obligated group under the New Jersey Hospital Asset Transformation Program. The debt is supported by state appropriations.

CHE Trinity Inc. Financial Summary

	--Fiscal year ended June 30--	
	2013	**2012**
Financial performance		
Net patient revenue ($000s)	11,636,786	11,060,558
Total operating revenue ($000s)	13,293,722	12,480,452
Total operating expenses ($000s)	12,878,650	12,108,924
Operating income ($000s)	415,072	371,528
Operating margin (%)	3.12	2.98
Net non-operating income ($000s)	346,669	126,779
Excess income ($000s)	761,741	498,307
Excess margin (%)	5.58	3.95
Operating EBIDA margin (%)	9.39	9.29
EBIDA margin (%)	11.69	10.2
Net available for debt service ($000s)	1,594,628	1,286,276
Maximum annual debt service ($000s)	294,524	294,524
Maximum annual debt service coverage (x)	5.41	4.37
Liquidity and financial flexibility		
Unrestricted cash and investments ($000s)	6,711,936	6,158,321
Unrestricted days' cash on hand	200.8	196.0
Unrestricted cash/total long-term debt (%)	1.37	1.33
Debt and liabilities		
Total debt ($000s)	4,906,055	4,641,534
Long-term debt/capitalization (%)	32.7	36.2
Debt burden (%)	2.15	2.33
Pro forma ratios		
Unrestricted days' cash on hand	209.3	
Unrestricted cash/total long-term debt (%)	134.61	
Long-term debt/capitalization (%)	36.4	

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Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- U.S. Not-For-Profit Health Care Sector Outlook: Providers Prove Adaptable But Face A Test In 2013 As Reform Looms, Jan. 4, 2013
- U.S. Not-For-Profit Health Care System Ratios: Metrics Remain Steady As Providers Navigate An Evolving Environment, Aug. 8, 2013
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies To Manage Transition Risk, May 16, 2012
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies For Reform, May 16, 2011

Ratings Detail (As Of October 3, 2013)		
Catholic Health East Series 1999G		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Series 2008		
Short Term Rating	A-1+	Affirmed
Athens Clarke Cnty Unif Govt, Georgia		
Catholic Health East, Pennsylvania		
Series 2002D & 2009		
Long Term Rating	AA-/Stable	Upgraded
California Statewide Communities Dev Auth, California		
Trinity Health , Michigan		
Series 2011CA		
Long Term Rating	AA-/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth, Connecticut		
Catholic Health East, Pennsylvania		
Series 2010		
Long Term Rating	AA-/Stable	Upgraded
Delaware Cnty Auth, Pennsylvania		
Catholic Health East, Pennsylvania		
Series 2001		
Long Term Rating	AA-/Stable	Upgraded
Delaware Hlth Fac Auth, Delaware		
Catholic Health East, Pennsylvania		
Series 2003D		
Long Term Rating	AA-/Stable	Upgraded
Franklin Cnty, Ohio		
Trinity Health , Michigan		
Series 1995		

Ratings Detail (As Of October 3, 2013) (cont.)		
Long Term Rating	AA-/A-1+/Stable	Downgraded
Series 2011OH		
Long Term Rating	AA-/Stable	Downgraded
Greene Cnty Dev Auth, Georgia Catholic Health East, Pennsylvania		
series 2012A		
Long Term Rating	AA-/Stable	Upgraded
Idaho Hlth Fac Auth, Idaho Trinity Health , Michigan		
Series 2008B, 2010D		
Long Term Rating	AA-/Stable	Downgraded
Illinois Fin Auth, Illinois Trinity Health , Michigan		
Series 2011IL		
Long Term Rating	AA-/Stable	Downgraded
Indiana Fin Auth, Indiana Trinity Health , Michigan		
Conversion of Series 2008D-2		
Long Term Rating	AA-/A-1+/Stable	Downgraded
Series 2006B, 2009A		
Long Term Rating	AA-/Stable	Downgraded
Series 2010B		
Long Term Rating	AA-/Stable	Downgraded
Massachusetts Development Finance Agency, Massachusetts Catholic Health East, Pennsylvania		
Series 2002E, 2007, 2009 & 2010		
Long Term Rating	AA-/Stable	Upgraded
Miami, Florida Catholic Health East, Pennsylvania		
Series 2003B&C		
Long Term Rating	AA-/Stable	Upgraded
Michigan Fin Auth, Michigan Trinity Health , Michigan		
Series 2008C		
Long Term Rating	AA-/Stable	Downgraded
Series 2009B&C		

Ratings Detail (As Of October 3, 2013) (cont.)		
Long Term Rating	AA-/Stable	Downgraded
Series 2010A		
Long Term Rating	AA-/Stable	Downgraded
Series 2011MI		
Long Term Rating	AA-/Stable	Downgraded
Michigan St Hosp Fin Auth, Michigan Trinity Health , Michigan		
Michigan St Hosp Fin Auth (Trinity Health) Series 2005D		
Unenhanced Rating	AA-(SPUR)/Stable	Downgraded
Series 2005E, 2005F, 2008C, 2009B&C		
Long Term Rating	AA-/A-1+/Stable	Downgraded
Series 2012MI, 2005D, 2006A, 2008A		
Long Term Rating	AA-/Stable	Downgraded
Montgomery Cnty, Maryland Trinity Health , Michigan		
Series 2011MD		
Long Term Rating	AA-/Stable	Downgraded
Montgomery Cnty Hgr Ed & Hlth Auth, Pennsylvania Catholic Health East, Pennsylvania		
Series 2004C, 2007 & 2009		
Long Term Rating	AA-/Stable	Upgraded
New Jersey Hlth Care Facs Fincg Auth, New Jersey Catholic Health East, Pennsylvania		
New Jersey Hlth Care Fac Fin Auth (Catholic Health East) Series 1998E		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Series 2007, 2009E & 2010		
Long Term Rating	AA-/Stable	Upgraded
North Carolina Med Care Comm, North Carolina Catholic Health East, Pennsylvania		
Series 2010 & 2012A		
Long Term Rating	AA-/Stable	Upgraded
Ontario Hosp Fac Auth, Oregon Trinity Health , Michigan		
Series 2010E		
Long Term Rating	AA-/Stable	Downgraded

Ratings Detail (As Of October 3, 2013) (cont.)		
St. Mary Hosp Auth, Pennsylvania		
Catholic Health East, Pennsylvania		
Series 2004A&B, 2007, 2009, 2010A&B and 2012A		
Long Term Rating	AA-/Stable	Upgraded
Series 2012B		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Long Term Rating	AAA/A-1+	Affirmed
Tampa, Florida		
Catholic Health East, Pennsylvania		
Series 2010 & 2012A		
Long Term Rating	AA-/Stable	Upgraded

Many issues are enhanced by bond insurance.

McGRAW-HILL

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MOODY'S
INVESTORS SERVICE

Rating Update: Moody's upgrades Catholic Health East's to Aa2; outlook is negative

Global Credit Research - 03 Oct 2013

$687 million of rated debt affected

SAINT MARY HOSPITAL AUTHORITY, PA
Hospitals & Health Service Providers
PA

Opinion

NEW YORK, October 03, 2013 --Moody's Investors Services has upgraded to Aa2 from A2 the ratings assigned to Catholic Health East's (CHE) $687 million of outstanding long-term rated debt issued through various authorities (see RATED DEBT section of this report). The outlook is negative. CHE is now part of CHE Trinity, Inc. (referred to as CHE Trinity) and the rating upgrade and negative outlook are based on our analysis of CHE Trinity. The rating upgrade is attributable to a proposed substitution of notes that is scheduled to take place the week of October 1, 2013. At this time we are assigning Aa2/VMIG 1 ratings to the previously issued Series 2012B bonds issued through the Saint Mary Hospital Authority and the Series 2008 bonds issued through the North Carolina Medical Care Commission. These bonds are expected to be remarketed at the time that CHE Trinity issues its 2013 bonds. The long-term and short-term ratings are based on the credit quality of CHE Trinity, CHE Trinity's self liquidity program established originally by Trinity Health, and the proposed new debt security structure. Please see the CHE Trinity and Trinity Health reports issued concurrent with this report for a discussion of the analysis supporting the short term rating.

CHE Trinity became the new sole corporate member of Catholic Health East (CHE) and Trinity Health on May 1, 2013. CHE and Trinity Health currently maintain separate obligated groups in support of their respective organization's secured debt. As part of the merger, a new debt structure is being established whereby Trinity Health's Master Trust Indenture (MTI) will be amended to expand the Obligated Group to include CHE Trinity, CHE and Trinity Health. Trinity Health's debt will continue to be secured under the amended MTI and CHE's debt that is not refunded or refinanced will become secured under the new MTI through a proposed substitution of notes for the existing outstanding bonds, scheduled to occur on October 2, 2013. CHE Trinity is issuing $305 million of Series 2013 bonds. Concurrent with this bond sale, CHE's debt is being upgraded to Aa2 from A2 to reflect the new security and Trinity Health's bond ratings are being affirmed (see separate rating reports issued concurrently for CHE Trinity and Trinity Health).

Should the proposed substitution of notes not take place as outlined, CHE's rating will be revisited and could be downgraded.

SUMMARY RATING RATIONALE:

The Aa2 rating is attributable to CHE Trinity's position as one of the nation's largest multi-state health systems that has expanded into 21 states, with anticipated operating revenues to be just shy of $14 billion in fiscal year (FY) 2014 following the May 1, 2013 consolidation of Trinity Health and CHE. This geographic diversification generates cash flow diversification, with only three ministry organizations generating greater than 10% of system operating cash flow, and reducing the exposure to unfavorable fluctuations in any one state to only 25% of system revenues. Trinity Health's margins softened at the end of the last decade but have remained stable at 9.6% for the past three years (FY 2013 excludes net rural floor settlement of $50 million). While CHE experienced operational improvement in FY 2012 (ended December 31), the operating cash flow margin of 7.8% remains below that of Trinity Health (excludes net rural floor settlement of $24 million). On a pro forma basis as of June 30, 2013 including Trinity Health's audited financial performance and twelve months of CHE ended June 30, 2013, the combined group shows a adequate pro forma 9.0% operating cash flow margin and good debt service coverage of over 5 times on a moderate debt load. Cash on hand is adequate at just over 200 days, yet cash to direct debt is well below average for a Aa at 137% (Aa2 median is 222%).

The negative outlook speaks to the absence of a permanent top executive management team at this time, the

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weakened combined pro forma performance prior to the realization of annualized $302 million of cost control improvements and $100 million of anticipated revenue enhancements over the next three years, and the potential for the addition of organizations with weaker credit profiles that will place pressure on the rating.

STRENGTHS

*CHE Trinity has material geographic diversification across 21 states that reduces risk to any healthcare changes in an individual state. Only three markets comprise greater than 10% individually of system operating cash flow in FY 2013 (Columbus, OH, Ann Arbor, MI, and Chicago, IL), yet these regional systems hold strong market positions.

* CHE Trinity is now the second largest system in our portfolio with operating revenues projected to near $14 billion in FY 2014. Trinity Health, the stronger of the two combining systems, represents about 67% of the newly formed system's revenues and brings a history of strong centralized services.

*The organizations undertook separate cultural surveys prior to the merger that evidenced two highly aligned corporate cultures. A lack of geographic overlap will help mitigate conflicts of clinical integration on a market-by-market basis that can sometimes impair mergers over the short term. Concomitantly, however, it limits large scale clinical cost avoidance savings.

*Trinity Health has experienced a stable operating cash flow margin across the past three years (June yearend) and CHE reported improved performance in FY 2012 (December yearend). The combined operating performance is below average for a Aa2 rating (pro forma 9.0% operating cash flow margin for FY 2013), but remains good compared to peers with comparably large revenues bases. Operational improvement is anticipated across the next three years with annualized $302 million targeted in cost controls as the system's functions are consolidated and $100 million of anticipated revenue enhancements.

*Pro forma Moody's adjusted maximum annual debt service (MADS) coverage remains good at over 5 times on an average debt load of 37% debt to revenues.

*Growth in absolute liquidity has maintained cash on hand at or above 200 days with a strong treasury management function. CHE's assets have been consolidated with Trinity Health's treasury function and an anticipated rebalancing of the portfolio will occur over the next six months.

*Both organizations maintain a history of strategic mergers/acquisitions and divestitures to improve system operating performance. Trinity Health demonstrated a highly successful turnaround at Loyola University Health System in Chicago. CHE has pending divestitures of unprofitable markets that are expected to close in the near term.

*A sizable unrestricted liquidity portfolio along with a dedicated syndicated line of credit, solid treasury management, and appropriate liquidation procedures support the tender features on variable rate demand debt supported by internal liquidity.

CHALLENGES

*CHE Trinity is without a permanent top executive management team, currently functioning with an interim chief executive officer (the CEO from CHE), an interim COO from the Trinity Health Board, and an interim chief financial officer (the CFO from CHE). The longstanding CEO of Trinity Health was slated to be the CEO of CHE Trinity, but an unexpected departure from the organization mandated a change in plans. A new CEO is expected by the end of the calendar year.

*Trinity Health experienced slow decline of the operating cash flow margin in the last decade, followed by stability at a lower level in 2011-2013. The operating performance and balance sheet profile of Aa2 rated Trinity Health Credit Group was further weakened with the merger of CHE. CHE Trinity has signed a letter of intent with Ba1 rated St. Joseph's Hospital Health Center in NY, whose projected $600 million in revenues could cause additional pressure on ratios.

*CHE Trinity expects to issue debt annually to fund capital projects and strategic growth, though management has proven an ability and willingness to pull back on capital spending when either operations or liquidity are stressed.

*Current liquidity is strained relative to the Aa2 level with ratios below the Aa2 median: pro forma cash on hand of 201 days versus median of 290 days and pro forma cash to direct debt low at 137% versus median of 222%. Additionally, CHE Trinity has underfunded pension plans and a sizable swap program.

*Many of the system's hospitals operate in highly competitive markets, with some not holding leading market share positions.

*Protracted efforts to complete various planned divestitures of CHE underperforming assets is a credit risk and continued consumption of time and resources.

DETAILED CREDIT DISCUSSION

Legal Structure: With the current bond sale by CHE Trinity, a newly amended MTI will go into affect whereby the debt issued by CHE Trinity, Trinity Health and CHE will be secured on parity. The system has stated its intent to exercise its right to issue note substitutions for the outstanding CHE bonds, replacing the current security with the new security. The newly established Obligated Group will be a joint and several obligation of CHE Trinity, Trinity Health and CHE, but does not include the hospitals. Trinity Health may not withdraw from the Obligated Group. The Credit Group will consist of Members of the Obligated Group and the Designated Affiliates. The Designated Affiliates include the majority of the hospitals except for the New York facilities and Mercy Chicago. The Obligated Group pledges to cause the Designated Affiliates to pay, loan or otherwise transfer to the Obligated Group such moneys as are necessary to pay amounts due on the bonds. Rate covenant of 1.1 times. Pledge of revenue derived from the operation of all facilities of the majority of Designated Affiliates, including rights to receive accounts and heath care-insurance receivables.

INTEREST RATE DERIVATIVES: CHE Trinity has an extensive swap portfolio with $2.55 billion in outstanding notional amount. As of June 30, 2013 the swap program consists of $1.5 billion in basis swaps, $682 million in floating-to-fixed rate swaps, $125 million in fixed-to-floating rate swaps, $195 million in constant maturity swaps and $73 million in total return swaps. The swaps are spread across six counterparties. The fair market value of the swaps as of June 30, 2013 was a liability of $112 million. Certain collateral posting requirements are in effect, and as of June 30, 2013 CHE Trinity had posted $11.2 million in collateral.

MARKET POSITION/COMPETITIVE STRATEGY: SIGNIFICANT GEOGRAPHIC DIVERSIFICATION VIEWED FAVORABLY

Through the merger, CHE Trinity has become the second largest not-for-profit organization in our portfolio, operating over 80 hospitals across 21 states. Together with a 4,100 employed physician base (including residents), a sizable presence in continuing care, home care and hospice, CHE Trinity is projected to generate just under $14 billion in revenues in FY 2014. The consolidation brought together mid-west/west coast based Trinity Health with east coast based CHE. These two Catholic based systems discovered a very strong cultural alignment across the two systems through a formal audit by an outside consultant. This alignment will be tested when new senior management is in place and as corporate services are consolidated. The absence of geographic overlap between Trinity Health and CHE hospitals also mitigates some of the cultural compatibility risks of clinical consolidation that we often see in other mergers but also limits larger upside savings.

The organization is currently without a permanent top executive management team, operating with an interim CEO, COO and CFO from within the two legacy systems. A new CEO is anticipated by the end of the calendar year, and the current interim CEO, who was the CEO of CHE, will remain on board to assist with the management transition. Following the hiring of a permanent CEO, the new CEO will be charged with structuring the executive team. The Board of Directors of CHE Trinity consists of board members who previously served on the Boards of both Trinity Health and CHE and two new board members appointed October 1. Trinity Health and CHE Boards mirror the CHE Trinity Board.

Both Trinity Health and CHE have histories of acquisitions/ mergers and divestitures to maintain a strong operating system. Most recently, Trinity Health entered the Chicago, IL market with the July 1, 2011 acquisition of Loyola University Health System and the April 1, 2012 acquisition of Mercy Health System of Chicago, which combined generated $1.4 billion in operating revenues in FY 2013. Trinity Health turned a combined FY 2012 operating (profit of $5.1 million into a $46.7 million profit in FY 2013 in a market with a minority market share and gained an academic medical center. Effective October 1, 2011, CHE successfully merged three organizations into St. Peter's Health Partners (Albany, NY) and increased operating cash flow by $17 million in FY 2013. The systems also have experience with divestitures. Trinity Health sold its 50% equity interest in Battle Creek, MI in July 2011. CHE has two pending divestitures - Mercy Hospital in Portland, Maine and St. Michael's Medical Center in Newark, New Jersey. Both are distressed markets with large losses incurred for several years. Divestiture discussions have been ongoing for over a year with various suitors named. Inability to successful divest these hospitals remains a credit risk despite the accounting treatment which reports the losses as discontinued operations.

CHE Trinity has signed a non-binding letter of intent to acquire St. Joseph's Hospital Health Center in Syracuse, NY. St. Joseph's is currently rated Ba1, and represents a weaker credit profile and brings a highly competitive market into the portfolio. We believe that in the near term, while representing less than 5% of revenues, this acquisition would be slightly dilutive to CHE Trinity's performance and balance sheet.

OPERATING PERFORMANCE: MODEST PRO FORMA PERFORMANCE; STRONGER TRINITY HEALTH REPRESENTS TWO-THIRDS OF SYSTEM REVENUES

Pro forma CHE Trinity performance (management prepared based on Trinity Health's audited 2013 performance and 12 months of CHE ended June 30, 2013) reports a 9.0% operating cash flow margin and 5.6 times MADS coverage. This is weaker than Trinity Health's performance and stronger than CHE's performance. With the consolidation, the stronger Trinity Health represents about 67% of total system revenues.

Trinity Health has had stable operating cash flow margins across the past three years at 9.6% after experiencing a slight decline in the final years of the past decade ($50 million of net Medicare rural floor settlement removed in FY 2013). The three largest markets for Trinity Health, and now CHE Trinity, are St. Joseph Mercy Health System in Ann Arbor, MI, Mount Carmel Health System in Ohio, and now Loyola University Health System, which represent the only markets generating greater than 10% of the system's operating cash flow. St. Joseph and Mount Carmel generated double digit cash flow margins in FY 2013 despite some volume declines. CHE improved operationally in FY 2012 to report a 7.8% operating cash flow margin in FY 2012 (excluding a $24 million net Medicare rural floor settlement) compared to 7.1% the prior year.

Management is projecting for $302 million in cost controls over the next three years as the two organizations are fully integrated and over $100 million in revenue enhancements. A large portion of the savings is from supply chain management, with additional benefits from revenue cycle improvements, information systems, finance and some clinical improvements. Steps have already been taken to consolidate insurance programs, consolidated the treasury function, and reduce management staffing. The FY 2014 operating cash flow margin is projected to increase to 9.6%.

BALANCE SHEET POSITION:FAVORABLE BALANCE SHEET METRICS; HISTORY OF DISCIPLINED CAPITAL SPENDING EXPECTED TO CONTINUE

Absolute liquidity for CHE Trinity reached $6.7 billion as of June 30, 2013, with cash on hand a pro forma 201 days, below the Aa2 median of 290 days. Trinity Health's absolute liquidity of $5.3 billion at June 30, 2013 generated cash on hand of 235 days, with the weaker profile at CHE bringing cash on hand down but remaining over 200 days. Both organizations maintain exposures to hedge funds and private equity funds, but less than 20% combined. Each maintained greater than 10% in cash and greater than 25% in fixed income securities. The current new money portion of the bond proceeds reimburses for prior capital expenditures, adding to absolute liquidity. Trinity Health has a practice of funding strategic capital needs throughout the year with its commercial paper program, then issuing long term financing to pay down the outstanding CP. This practice will continue for CHE Trinity.

The combined pro forma debt load is moderate at 37% debt-to-operating revenues, with pro forma cash-to-direct debt weak at 137% (Aa2 median is 222%). The pro forma debt load is 62% fixed rate and 38% variable rate, with the majority of variable rate bonds supported by the self liquidity program.

The Series 2013 debt structure includes the issuance of variable rate bonds in the Windows mode. In this mode, bondholders may tender their bonds at any time. The remarketing agent has 30 days to try to remarket the bonds. If the remarketing fails, the bonds are put back to the bondholder and CHE Trinity has 180 days to either pay off or refinance the bonds, or remarket the bonds under a different mode. Additional optional modes include, daily, weekly, flexible, various index modes, FRN rate mode, term, and fixed rate. CHE Trinity has a procedures letter whereby they system outlines a plan over the six months to pay off the tender. The P-1 rating on these bonds does not speak to the tender structure but to CHE Trinity's ability to access the capital markets to pay off the tender.

The Series 2013 debt structure also includes the issuance variable rate bonds in a Term mode. The initial term will be quarterly, under which the remarketing agent will attempt to remarket the bonds over the quarter. CHE Trinity will be notified five days prior to the mandatory tender date of any unremarketed bonds. In CHE Trinity's procedures letter management has outlined their plans to begin liquidating funds to meet the tender four days before the mandatory purchase should sufficient cash not be available. CHE Trinity will initiate a cash transfer of funds on the mandatory purchase date.

OUTLOOK

The negative outlook reflects the absence of a permanent senior leadership team, a lengthy effort to complete the divestiture of some distressed CHE facilities, recent tempering of pro forma operating performance and balance sheet metrics, and potential future acquisitions that could stymie near-term improvement.

WHAT COULD MOVE THE RATNG UP

A rating upgrade would be considered with material and sustained improvement in operating and operating cash flow margins that generate improved debt coverage metrics on a sustained basis. Establishment of a permanent top executive team is a must. Growth in liquidity and an overall strengthening of the balance sheet, including higher coverage under the self-liquidity program would need to be reached. Successful integration of the two merged organizations with a track record at higher performance levels would be an additional factor.

WHAT COULD MOVE THE RATING DOWN

A rating downgrade would be considered if CHE Trinity is unable to improve operating performance due to challenges with the integration of the two systems or acquisitions/ mergers that further dilute operations or the balance sheet. Continued protracted effort to divest of two distressed CHE markets will also pressure the rating. The inability to establish a permanent and effective new executive management team for this complex organization will create rating pressure. Any tempering of the balance sheet, in particular a weakening of liquidity balances, could place stress on the long term rating.

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Trinity Health and Catholic Health East

-First number reflects Trinity Health audit year ended June 30, 2013

-Second number reflects pro forma CHE Trinity adding Trinity Health 2013 audit with CHE 2012 audit (CHE audit year ended December 31, 2012)

-Third number reflects management's pro forma CHE Trinity with Trinity Health 2013 audit and CHE for the twelve months ended June 30, 2013

-Excludes from other operating revenues net Medicare rural floor settlements of $50 million for Trinity Health and $24 million for CHE in FY 2012

-Reclassified investment income of $9.6 million from Trinity Health's FY 2013 audit

-Excludes from operating expenses non-recurring consolidation costs of $17.0 million from Trinity Health FY 2013

-Investment returns smoothed at 6%

-Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

-Monthly liquidity to demand debt ratio is not included if demand debt is de minimis

*Inpatient admissions: 347,309;477,069; NA (Designated Affiliates only)

*Observation stays: not available

*Medicare % of gross revenues: 37%; NA; NA

*Medicaid % of gross revenues: 11%; NA; NA

*Total operating revenues ($): $8.9 billion; $13.1 billion; $13.3 billion

*Revenue growth rate (%) (3 yr CAGR): 8.4%; NA; 10.7%

*Operating margin (%): 2.9%; 2.9%; 3.1%

*Operating cash flow margin (%): 9.6%; 9.2%; 9.4%

*Debt-to-cash flow (x): 3.31 times; 3.03 times; NA

*Days cash on hand: 235 days; 213 days; NA

*Maximum annual debt service (MADS) ($): $200.8 million; $318.9 million; NA

*MADS coverage with reported investment income (x): 5.32 times; 4.87 times; NA

*Moody's-adjusted MADS Coverage with normalized investment income (x): 5.9 times; 5.9 times; NA

*Direct debt ($): $3.5 billion; $4.8 billion; $4.9 billion

*Cash-to-direct debt (%): 149%; 146%; 137%

*Comprehensive debt: $3.5 billion; $5.7 billion; NA

*Cash-to-comprehensive debt (%): 149%; 123%; NA

RATED DEBT (debt outstanding as of June 30, 2013)

-Series 1999G taxable fixed rate bonds ($3.7 million outstanding), rated Aa2

Development Authority of the Unified Government of Athens-Clarke County, GA:

-Series 2002 fixed rate bonds ($2.0 million outstanding), rated Aa2

-Series 2009 fixed rate bonds ($15.9 million outstanding), rated Aa2

State of Connecticut Health and Educational Facilities Authority:

-Series 2010 fixed rate bonds ($19.3 million outstanding), rated Aa2

Delaware Health Facilities Authority:

-Series 2003D fixed rate bonds ($16.6 million outstanding, $0 to remain outstanding post refunding), rated Aa2

Greene County Development Authority, GA:

-Series 2012 fixed rate bonds ($39.1 million outstanding), rated Aa2

Massachusetts Health and Educational Facilities Authority:

-Series 2007C index mode bonds ($12.4 million outstanding), rated Aa2

-Series 2009 fixed rate bonds ($30.1 million outstanding), rated Aa2

-Series 2010 fixed rate bonds ($11.4 million outstanding), rated Aa2

City of Miami, FL Health Facilities Authority:

-Series 2003B fixed rate bonds ($27.9 million outstanding, $0 to remain outstanding post refunding), rated Aa2

Montgomery County Higher Education and Health Authority, PA:

-Series 2004C fixed rate bonds ($1.3 million outstanding), rated Aa2

-Series 2007D index mode bonds ($9.9 million outstanding), rated Aa2

-Series 2009 fixed rate bonds ($5.5 million outstanding), rated Aa2

New Jersey Health Care Facilities Financing Authority:

-Series 1998E fixed rate bonds ($5.2 million outstanding, $0 to remain outstanding post refunding), rated Aa2

-Series 2003A fixed rate bonds ($1.3 million outstanding, $0 to remain outstanding post refunding), rated Aa2

-Series 2007E index mode bonds ($1.4 million outstanding), rated Aa2

-Series 2010 fixed rate bonds ($115.8 million outstanding), rated Aa2

North Carolina Medical Care Commission:

-Series 2008 variable rate bonds ($25.3 million outstanding), rated Aa3/VMIG 1 based upon a Letter of Credit ; these bonds are being refinanced and the short term rating will be supported by Trinity Health's own self liquidity

-Series 2010 fixed rate bonds ($11.8 million outstanding), rated Aa2

-Series 2012A fixed rate bonds ($17.1 million outstanding), rated Aa2

Saint Mary Hospital Authority, PA:

-Series 2004A fixed rate bonds ($8.9 million outstanding), rated Aa2

-Series 2004B fixed rate bonds ($5.7 million outstanding), rated Aa2

-Series 2007F index mode bonds ($4.0 million outstanding), rated Aa2

-Series 2009 fixed rate bonds ($34.0 million outstanding), rated Aa2

-Series 2010A fixed rate bonds ($92.8 million outstanding), rated Aa2

-Series 2010B fixed rate bonds ($42.4 million outstanding), rated Aa2

-Series 2012A fixed rate bonds ($102.5 million outstanding), rated Aa2

City of Tampa, Florida:

-Series 2010 fixed rate bonds ($20.2 million outstanding), rated Aa2

-Series 2012A fixed rate bonds ($28.0 million outstanding), rated Aa2

The principal methodology used in the long term rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. An additional methodology used in rating the short term rating was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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